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MARKETS

In Technology Stocks, Investors Do Trust

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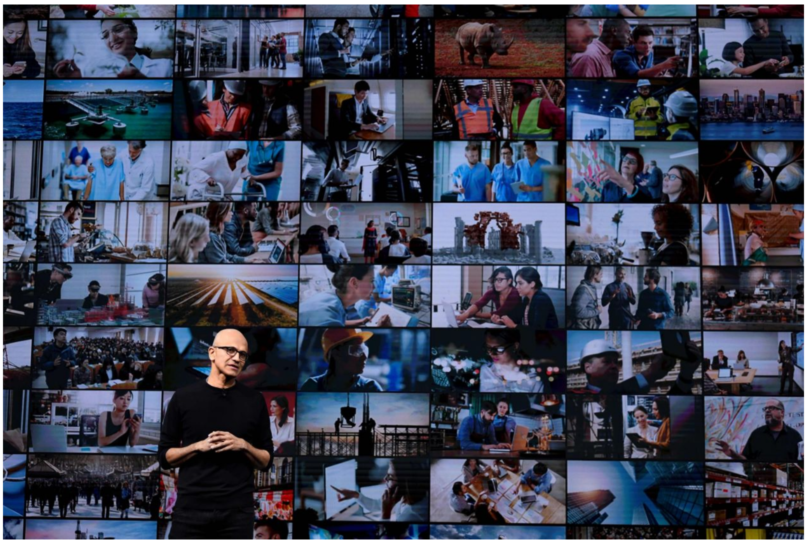

Microsoft CEO Satya Nadella at the Mobile World Congress in Barcelona in February. **PHOTO:** GABRIEL BOUYS/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Amrith Ramkumar

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A group of the largest technology companies climbed to a record Monday, highlighting investors' renewed faith in software and chip companies after a fourth-quarter rout.

The S&P 500 information-technology sector on Monday logged its first record close since early October, following a seventh advance in the previous eight sessions. The group of 68 tech stocks notched a fresh closing record slightly faster than its broader brethren: The S&P 500 is 1.8% below its last record, while the tech-laden Nasdaq Composite is 2.5% off its last peak.

> The S&P tech sector and both indexes fell Tuesday amid fears of slowing economic growth and continuing trade tensions between the U.S. and Europe.

Still, as investors have flocked back toward fast-growing companies early this year, technology shares have been among the best performers. The S&P 500 technology group is up 22% in 2019, compared with a 15% advance for the broader index. The sector posted its best start to a year ever through Monday, according to Dow Jones Market Data.

With the U.S. and China seeking to negotiate a trade agreement and the Federal Reserve showing caution on further interest-rate increases, investors again favor companies that have consistently lifted sales in recent years. Those stocks tumbled during last autumn's volatility but are back leading the way as investors embrace riskier sectors.

"There's a narrower list of businesses that are generating most of the growth today, so those are the ones that have been leading the market," said Michael Lippert, who manages the Baron Capital Opportunity Fund that counts several technology and internet companies among its largest holdings. "I'm not sure that will change."

Monday's record ended the S&P tech sector's longest streak without an all-time high since July 2017, according to Dow Jones Market Data. Before that, the prior record was 17 years earlier at the height of the dot-com bubble.

Of course, tech stocks aren't the only group soaring as part of this year's market rally. Six of the S&P 500's 11 sectors are up at least 15% for the year, and every group has advanced at least 6%.

Apple Inc. and Microsoft Corp. have helped power the technology sector higher while jostling for the title of world's largest company. Apple shares have rebounded 26% to start the year, giving the iPhone maker a market value of $941 billion. Shares of Microsoft are up 17%, putting the software giant's market cap at $915 billion.

After Alphabet Inc. and Facebook Inc. were moved to the communication-services sector from the technology group last year, makers of semiconductors and software have driven it higher in 2019 as trade tensions thaw. The PHLX Semiconductor Index is up 27%, and several software and chip companies, from Xerox Corp. to Nvidia Corp. , are up more than 40% for the year.

Other big-name internet stocks, including Amazon.com Inc. and Netflix Inc., also aren't in the S&P technology group. Amazon is in the consumer-discretionary sector and Netflix is in the communication-services group.

The technology sector's strength even without most of the beloved FAANG stocks—it includes Apple but excludes Facebook, Amazon, Netflix and Google's parent—illustrates investor appetite for less-heralded semiconductor and software companies, analysts say.

With the Nasdaq Composite still further away from a record, the sector milestone also highlights differences in the composition of the broader index that is most often associated with technology and the slimmer S&P 500 tech sector.

Tech shares make up 46% of the market-cap-weighted Nasdaq Composite, according to Nasdaq, but consumer-services and health-care stocks each make up more than 10%. Comcast Corp. and PepsiCo Inc. are among its largest components that aren't tech companies.

Despite tech's almost uninterrupted rise to start the year, some analysts expect first-quarter earnings season to test the group. The S&P tech sector is expected to log an 11% drop in profits from a year earlier and a 1% fall in revenue, FactSet data show. That would mark the first slide for both metrics since the second quarter of 2016.

Because many tech stocks are associated with market momentum, some analysts caution that a setback on trade or downbeat economic data could send the group tumbling once again.

"When people get nervous about the market, those companies pull back," Mr. Lippert said.

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